PROPOSITION

87 ALTERNATIVE ENERGY. RESEARCH, PRODUCTION, INCENTIVES. TAX ON CALIFORNIA OIL PRODUCERS. INITIATIVE CONSTITUTIONAL AMENDMENT AND STATUTE.

OFFICIAL TITLE AND SUMMARY ★ ★ ★

Prepared by the Attorney General

ALTERNATIVE ENERGY. RESEARCH, PRODUCTION, INCENTIVES. TAX ON CALIFORNIA OIL PRODUCERS. INITIATIVE CONSTITUTIONAL AMENDMENT AND STATUTE.

- Establishes $4 billion program with goal to reduce petroleum consumption by 25%, with research and production incentives for alternative energy, alternative energy vehicles, energy efficient technologies, and for education and training.
- Funded by tax of 1.5% to 6% (depending on oil price per barrel) on producers of oil extracted in California. Prohibits producers from passing tax to consumers.
- Program administered by new California Energy Alternatives Program Authority.
- Prohibits changing tax while indebtedness remains.
- Revenue excluded from appropriation limits and minimum education funding (Proposition 98) calculations.

Summary of Legislative Analyst's Estimate of Net State and Local Government Fiscal Impact:

- New state revenues—depending on the interpretation of the measure—from about $225 million to $485 million annually from the imposition of a severance tax on oil production, to be used to fund $4 billion in new alternative energy programs over time.
- Potential reductions of state revenues from oil production on state lands of up to $15 million annually; reductions of state corporate taxes paid by oil producers of up to $10 million annually; local property tax reductions of a few million dollars annually; and potential reductions in fuel-related excise and sales taxes.

ANALYSIS BY THE LEGISLATIVE ANALYST

BACKGROUND

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California Oil Production. In 2005, California's estimated oil production (excluding federal offshore production) totaled 230 million barrels of oil—an average of 630,000 barrels per day. California's 2005 oil production represents approximately 12 percent of U.S. production, making California the third largest oil-producing state, behind Texas and Alaska. Oil production in California peaked in 1985 and has declined, on average, by 2 percent to 3 percent per year since then. In 2005, California oil production supplied approximately 37 percent of the state's oil demand, while Alaska production supplied approximately 21 percent, and foreign oil supplied about 42 percent.

Virtually all of the oil produced in California is delivered to California refineries. In 2005, the total supply of oil delivered to oil refineries in California was 674 million barrels, including oil produced in California as well as outside the state. Of the total oil refined in California, approximately 67 percent goes to gasoline and diesel (transportation fuels) production.

Oil-Related Taxation in California. Oil producers pay the state corporate income tax on profits earned in California. Oil producers also pay a regulatory fee to the Department of Conservation (which regulates the production of oil in the state) that is assessed on production, with the exception of production in federal offshore waters. This regulatory fee is used to fund a program that, among other activities, oversees the drilling, operation, and maintenance of oil wells in California. Currently, producers pay a fee of 6.2 cents per barrel of oil produced, which will generate total revenues of $14 million in 2006–07. Additionally, property owners in California pay local property taxes on the value of both oil extraction equipment (such as drills and pipelines) as well as the value of the recoverable oil in the ground.